

# FISCAL NOTE

**Bill #:** HB550

**Title:** Earned income tax credit

**Primary Sponsor:** Gail Gutshe

**Status:** Introduced

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Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
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## Fiscal Summary

	<u>FY2002 Difference</u>	<u>FY2003 Difference</u>
<b>Expenditures:</b>		
General Fund	\$16,362	\$0
<b>Revenue:</b>		
General Fund	\$(9,000,000)	\$(9,135,000)
<b>Net Impact on General Fund Balance:</b>	<b>\$(9,016,362)</b>	<b>\$(9,135,000)</b>

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<u>Yes</u>	<u>No</u>		<u>Yes</u>	<u>No</u>	
	X	Significant Local Gov. Impact	X		Technical Concerns
	X	Included in the Executive Budget	X		Significant Long-Term Impacts
	X	Dedicated Revenue Form Attached	X		Family Impact Form Attached

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## Fiscal Analysis

### ASSUMPTIONS:

1. The Center on Budget and Policy Priorities (Washington, D.C.) has completed a comprehensive study of federal and state earned income tax credits. That study provides an estimate of the cost to states to implement and earned income tax credit (EITC) tied to 10% of the federal credit. That study concludes that the cost to Montana in fiscal 2002 of tying to the federal EITC at a rate of 10% of the federal credit would reduce state income tax liabilities by \$9 million. Inherent in their analysis is the assumption that 85% of the households that claim the federal credit will claim the state credit.
2. The federal earned income credit will grow at a rate of 1.5% per year (IRS); Montana's share of the federal credit will remain constant over time.
3. The bill provides for a state-level earned income tax credit equal to 10% of the federal credit for tax years 2001 and 2002. This increases to 15% of the federal credit for tax years 2003 and 2004; and to 20% of the federal credit for tax years 2005 and 2006.

(continued)

4. All of the impact of the credit on tax year liabilities will be felt in full in the subsequent fiscal year.
5. Based on the above assumptions this bill will reduce individual income tax revenue (state general fund) by \$9 million in fiscal 2002; and by \$9.135 million in fiscal 2003.
6. Administrative expenses increase by \$16,362 in fiscal 2002 to provide for a new line on the income tax form, and for data capture and reporting requirements in the bill.

FISCAL IMPACT:

	<u>FY2002</u> <u>Difference</u>	<u>FY2003</u> <u>Difference</u>
<u>Expenditures:</u>		
Operating Expenses	\$16,362	\$0
<u>Funding:</u>		
General Fund (01)	\$16,362	\$0
<u>Revenues:</u>		
General Fund (01)	\$(9,000,000)	\$(9,135,000)
<u>Net Impact to Fund Balance (Revenue minus Expenditure):</u>		
General Fund (01)	\$(9,016,362)	\$(9,135,000)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

This bill has no impact on county or other local government revenues or expenditures.

LONG-RANGE IMPACTS:

The bill, as introduced, will significantly increase the cost of the credit over time, as the percentage of federal credit allowable increases over time. The following table shows the forecast cost of this proposal in future fiscal years, based on the assumption that the total federal credit grows at an annual rate of 1.5%, and based on the percentage of federal credit allowed in the bill:

HB550 - Earned Income Tax Credit				
FY	Montana Federal Credit	State Utilization	State Percentage	State Credit
2002	105,882,353	0.85	10%	9,000,000
2003	107,470,588	0.85	10%	9,135,000
2004	109,082,647	0.85	15%	13,908,038
2005	110,718,887	0.85	15%	14,116,658
2006	112,379,670	0.85	20%	19,104,544
2007	114,065,365	0.85	20%	19,391,112
2008	115,776,346	0.85	20%	19,681,979
2009	117,512,991	0.85	20%	19,977,208